

## Inter-Regional Structure of Marketing and Linkages among Small Scale Industries in Ondo State Nigeria

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### Abstract

Industrial development not only entails quantitative growth of industries but a well linked industrial structure where an output of one firm is an input of the other. This study investigated marketing and inter-regional linkage pattern among small scale industries in Ondo state. Relying on questionnaire which was administered on 353 proprietors out of existing 1411 randomly, the study discovered substantial local sourcing of raw materials, sourced directly or from other small enterprises varying from 44% in Ondo North, 46% in Ondo Central, and 45.5% Ondo South. The study also discovered that over 92.5% of enterprises in this category were informal agro processing enterprises. Moreover 46% of small scale industries products were consumed within the state while 41% of the existing 116 enterprises that sourced their inputs from small scale industries around were agro based firms. The study concluded by suggesting improved support for agro enterprise with best potentials for linkage creation in Ondo state.

**Keywords:** Small scale industries, Industrial linkage, Regional development, Marketing, Industrialization.

### 1.0 INTRODUCTION

Scholars have long understood that small scale industries can play a major role in economic development. In fact the United Nations reported that the share of small and medium scale enterprises in manufacturing value added in developing countries varied from 65%. In spite of the fact that this may be considered small there has been a considerable improvement over the years. Moreover studies have shown that 80% of all enterprises in Nigeria are in small and medium scale category (Olayiwola and Adeleye 2005, Fatusin 2009) and they also accounted for about 60% of total employment in the manufacturing sector. The small scale industry is an integral component of economic development and a crucial element in the effort to lift countries out of poverty (Basem 2008). Small scale industries are a driving force for economic growth, job creation and poverty reduction in developing countries. They have been the means through which accelerated economic growth and rapid industrialization have been achieved (Ogechukwu and Latinwo 2010, Cook and Nixon, 2005).

However it has been observed that the developing countries especially African countries have not really benefitted from the advantages of industrialisation due to their weak industrial structures especially poor linkages among the few existing mostly consumer products based enterprises. (Mabogunje 2003). Yet this is important if the benefits of industrialization will be able to spread inter and intra industrial groups and regions. Industrial linkage allows for production subcontracting (Fatusin 2013 Ajayi 1998) reduces poverty (Akinbinu 2002), increases sophistication of industries and helps to improve the standard of living of countries.

Industrial linkage has accounted for growth in the so called BRICS countries comprising of Brazil, Russia, India, China, and South Korea, countries that have been able to not only improve their balance of trade, but are now considered as global centres of growth or emerging markets. How this has reflected across the three regions of Ondo state of Nigeria is the subject of this study.

#### 1.1 Concept of Industrial Linkage

This concept was introduced by Hirschman (1958) in his attempt to examine the effects of a particular industry on others. This concept was derived from Leontief's 'input-output' model. In the context of industrial sector, "linkage" refers to the flows of supplies, whether they are materials, semi-finished goods and components, or finished products, between two commercial concerns (Keeble, 1976).

Linkages are best understood in term of the theory Externality economies and in particular, in term of the distinction between pecuniary and technological externalities. Schitovisky (1954) declares that a pecuniary externality is generated where the action of one firm affects profitability of others through market mechanism. A technological or unprized externality is generated where the profitability of a firm is affected through non-market interdependence. In a fully developed economy, as one industry expands, prices of its inputs (as well as quantity) will rise and so, there would be a rise in the investment in the output producing industry. There are different types of linkages - backward linkage, forward linkage, service linkage, sales or marketing linkage, vertical and diagonal linkage.

Hirschman (1958) suggests that the ratio of the total value of purchases from other industries to the value of total production serves as a measure of backward linkage in an industry and the ratio of the value of sales to other industries to the value of final demand as a measure of forward linkage in an industry. Service linkage exists among the manufacturing firms and this takes the form of repair/maintenance services especially firms supplying

machines and equipment to buying firms. Marketing or sales linkage also exists among the manufacturing firms and this involves the firms, which are linked as a result of purchase and delivery of manufactured products.

### **1.2 Linkage Theory and Small Scale Industries**

Studies such as those of Rama, Ferguson and Melero (2002) KescidoeMarjolein and Romijn (2003), Mishra and Behera (2008) have tried to establish the benefit of industrial linkage among industries. Yet the literature on industrial linkage keeps expanding. The pattern of linkage between what Perroux (1950) referred to as large propulsive industry and small-scale firms in industrial district leads to complementarity between large and small scale enterprises. Functional complementarity between large and small scale enterprises has become a widely prevalent phenomenon. Expanding the base of the industrial production leads to division of processes where large and small scale units operate as complementary to each other. Such complementarity and division of labour between the different sized units results into cost minimization, and acceleration in growth of the manufacturing sector (Shar 1994. ). They are also a feeder service to large scale industries (Fabayo, 2009). Such complementarity and division of labour between the different sized units results into cost minimization, and acceleration in growth of the manufacturing sector. To McCann (2000) inter-industry trade linkage is defined in terms of direct or indirect, backward or forward relationship as the case may be. A direct linkage is the simple transaction, sales or purchases that occur between any two industries. A forward linkage is simply one industry's sale to another industry. Similarly backward linkages are direct inter-industry purchases within an industrial district. In their study of local knowledge spillovers of small scale software spillovers in Uruguay, Kescidou and Romijn (2009) observed massive inter industrial linkages among the small enterprises in areas of subcontracting, sharing of knowledge and innovations

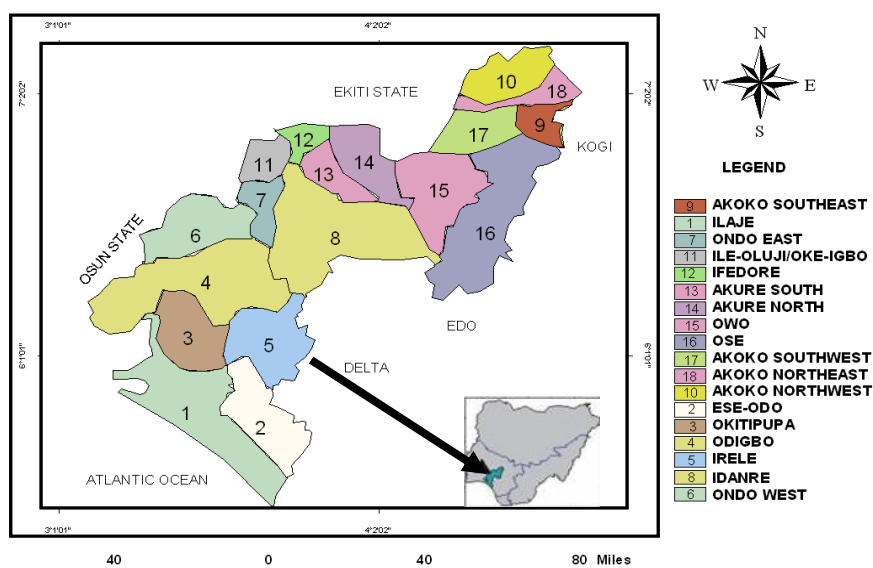
Many industrial clusters according to Schmitz (1999) comprises of large industries, some trans-national which are linked to small scale industries in term of some of their operations i.e. inputs knowledge and technology, product quality, etc., thus inducing learning process and technology upgrading among small firms. Small firms therefore tend to minimize the cost of transportation by Clustering around large firms from which they get their inputs. In the South East Asia, many chemical/petro-chemical and steel complexes in Indonesia, Singapore and Malaysia have attracted many dependent SSIs forming Clusters around such firms. In Nigeria there is little distinction between marketing and industrial linkage. The reason being the fact that industrial development is still a recent exercise. Many small scale enterprises don't sell directly to other manufacturers. Their produces are brought to the market from which other manufacturers who use the products to produce other products, or consumers buy directly. Yet recent studies suggest increasing examples of modern industrial linkages among small scale industries. This necessitates further investigation of the pattern of marketing linkage among small firms, between formal SSI and the micro credit type and how this has reflected in urban space.

### **1.3 Study Area: Ondo State of Nigeria**

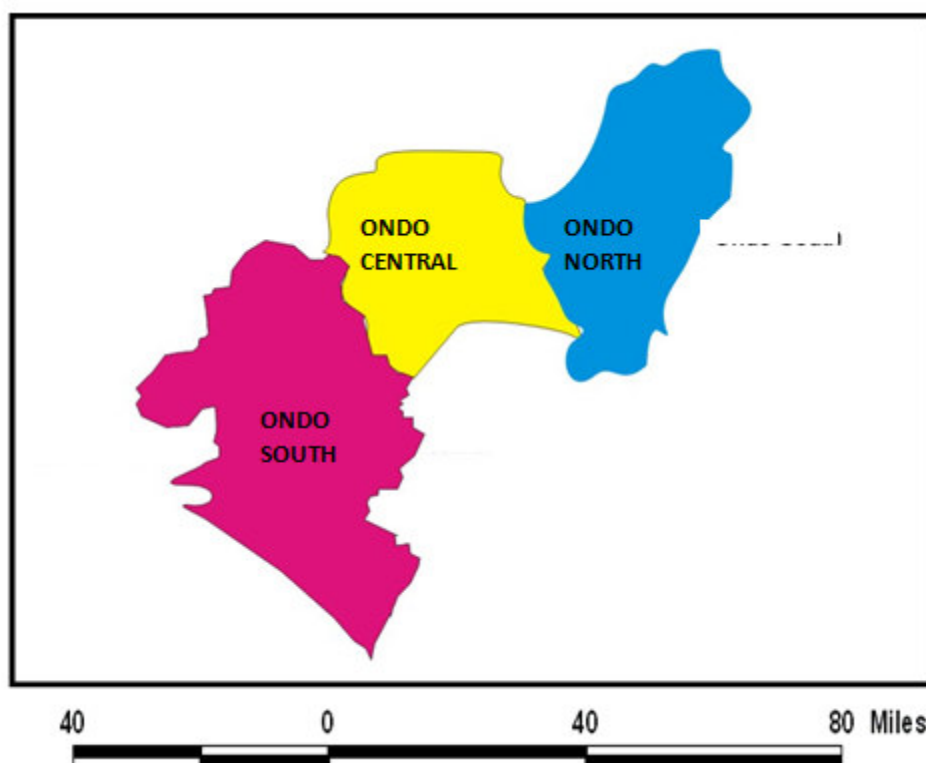
Ondo State of Nigeria is one of the seven states created on 3rd February 1976. It was carved out of the former Western State. The state covered the total area of the former Ondo Province, which was part of the western region created in 1915 with Akure as the provincial headquarters. Ondo State took off formally on 1st April 1976, consisting of the nine administrative divisions of the former Western State (Ondo Ministry of Information and Culture, 1979). These nine divisions then were Akoko. Akure, Ekiti Central, Ekiti North. Ekiti South. Ekiti West, Okitipupa, Ondo and Owo. Akure town-ship was retained as the state headquarters. However, on 1st October 1996. Ekiti State comprising Ekiti Central, Ekiti North, Ekiti South and Ekiti West Divisions was carved out of Ondo State. Hence, the present Ondo State is made up of Akoko, Akure, Okitipupa, Ondo and Owo divisions. Akure remains the State capital.

The state has a long history of craft industries. Owo for example was noted for its pottery and beads, Ondo for weaving and metal smelting, Akure was a centre of bronze making, while Okitipupa was noted for production of indigenous soap as well as water based SSI such as fish and shrimp processing and gin making.

The state lies between latitudes 5°45' and 7°52'N and longitudes 4°20' and 6° 05'E. Its land area is about 15,500 square kilometres. Ondo State is bounded on the east by Edo and Delta states, on the west by Ogun and Osun States, on the north by Ekiti and Kogi States and to the south by the Bight of Benin and the Atlantic Ocean. (See map 1).



**Map 1. The Local Government Areas of Ondo State**  
 Source: Ondo State Annual Report, 2009



**Map 2: Senatorial Regions of Ondo State**  
 Source: Ondo State Annual Report, 2009

**Table 1.1 Local Governments in the Three Senatorial Regions of Ondo State**

Ondo North	Ondo Central	Ondo South
Akoko Northwest	Ifedore	Odigbo
AkokoNortheast	Akure South	Okitipupa
Akoko Southeast	Akure North	Irele
Akoko Southwest	Ondo West	Ilaje
Ose	Ondo East	Ese-odo
Owo	Idanre	Ile- OlujiOke-igbo

**Source: Field work 2013**

The apex of the administrative structure is the state headquarters, Akure. Prior to the carving out of Ekiti State from Ondo State there were twenty-six Local Government Areas (LGAs). Fourteen of these remained in Ondo State, and from these, additional four LGAs were created. Currently, there are eighteen LGAs in Ondo State. An important aspect of the administrative set-up of Ondo State is the recognition of four subordinate area authorities. These are areas having some recognised autonomy within their LGAs. Besides, Ondo State is carved into 18 Local Government Area and three Senatorial Districts or regions as shown in map 2 and Table 1.1, namely:

- i. Ondo Central
- ii. Ondo South
- iii. Ondo North

The indigenous people are mostly Yoruba, made up of Akure, Akoko, Ondo, Ikale, Ilaje and Owo sub-ethnic groups. The inhabitants include ArogboIjaw and Apoi.

By virtue of 2006 population census, Ondo state had a population of 3.4m comprising 1.06m in Ondo North, 1.15m in Ondo central, and 1.22m in Ondo South senatorial districts. The population was projected to 3.86m in 2011 with the growth rate of 3% . The structure of the population is such that about 65% of the population is cosmopolitan, residing in over 21 major and minor towns in the 18 local government areas of the state. The other 35% comprise of the indigenous people as well as migrant farmers from the nearby states Ebira, Urhobo, Calabari, Igbo and Idoma contract farm workers.

Agriculture remains the mainstay of the state's economy. The people of Ondo state are mainly farmers producing cash and food crops such as cocoa, rubber, palm-fruits, vegetables, cottons, rice and yam. All these crops are produced virtually in all parts of the state in various degrees. The state government has embarked on educating farmers on the need to adopt modern farming techniques. Government attaches great importance to agriculture and promotes various programmes to enhance its development and growth. (Ondo State Investors Guide, 2000)

#### **1.4 Small Scale Industries in Ondo State**

The emphasis on small scale industries was imbibed by the state government. As early as 1978 the state government had realized the indispensability of small scale industries especially the informal sector. By the early 2000 and beyond, the large scale industries that were established from on shore and off shore loans had all collapsed and the state experienced de industrialization instead of functional industrialization. By the middle of the 90s, the debt accumulated by the state government from these industries were piling up as the state could not meet these financial commitments, also the states Investment Holdings Company, an investment arm of the state government had ceased to exist.

Under these circumstances, emphasis shifted to small micro credit enterprises. Government later established the Small Scale Industrial Credit Scheme to channel loans and other financial assistance to these mostly private enterprises. The result was that, out of the 1,873 registered industrial enterprises in the state in 2005; over 1,293 or 70% were in the small scale category, which employ between 1-9 people.

#### **1.5 Research Method**

In order to make the study representative of the entire state, three (3) major towns Akure, Ikare and Okitipupa, three (3) minor towns Ugbe, Obaile and Odeaye, three (3) major villages; IboropaAponmu and Ikoyawereinvestigated. The sample frame covered all the SSI (formal and informal) in the nine settlements selected. There were 1411 in the study area. The sample size of the SSI was 353. This constitutes 25% of the entire sample frame (1411). To collect the needed data questionnaires were administered on proprietors of small scale industries. Small scale industries in each town were first identified and numbered during reconnaissance survey. Twenty-fiveper-cents (25%) of the establishments in each of the nine settlements were sampled for interview. Data were analyzed usingsimple tables and pie chart.

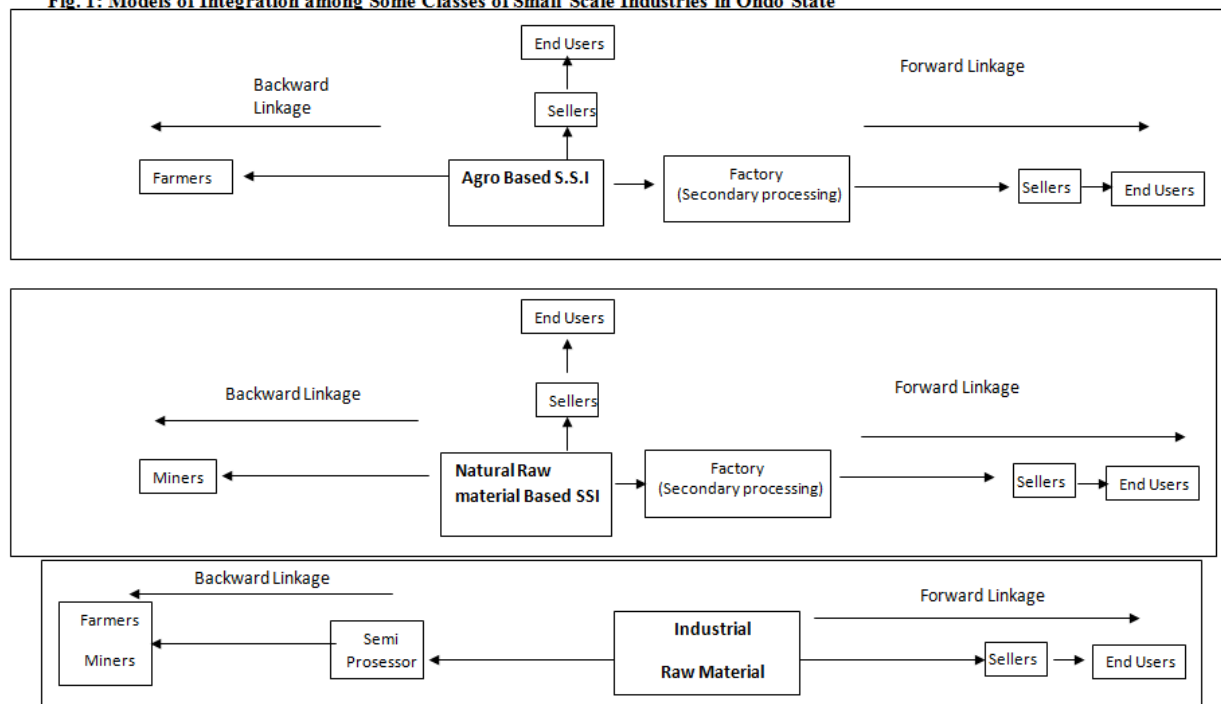
## **2.0 FINDINGS**

### **2.1 Industrial Linkage among Small Scale Industries**

Industrial growth not only encompasses the quantitative increase in the number of industries, but it also entails a well linked industrial structure and local raw materials and technology dependent firms, where the output of one is an input of the other. One of the criticisms of large industries especially the multinational corporations is that many of them do not impact on the local economy at all since their raw materials such as juice concentrates,

machines and even packaging materials are sourced from their headquarters abroad. So rather than generate and retain capital in the local economy through backward, forward and literal linkages, they tend to promote capital flight from the country. The pattern of linkages among small industries in Ondo State is shown in Fig 1.

**Fig. 1: Models of Integration among Some Classes of Small Scale Industries in Ondo State**



Source: Fieldwork, 2013.

## 2.2 Backward Linkage

The types of raw materials used by small scale industries depended entirely on the types of products they produced. For example agro based small enterprises would need agriculture raw materials as inputs while those that produced industrial and constructional materials were dependent on mineral raw materials or imported raw materials as the case may be. One of the often cited advantages of small enterprises especially the informal types is that many of them are wholly dependent on local raw materials, or raw materials sourced from the local market. For example, out of the 353 enterprises sampled, 33.7% (119) of the firms were dependent on the agricultural raw materials sourced from within the state, 45.0% (159) were dependent on industrial raw materials such as cement, sand textiles, scrap iron and plastics sourced from the state and the local areas, 17% (60) of firms were dependent on natural mineral raw materials.

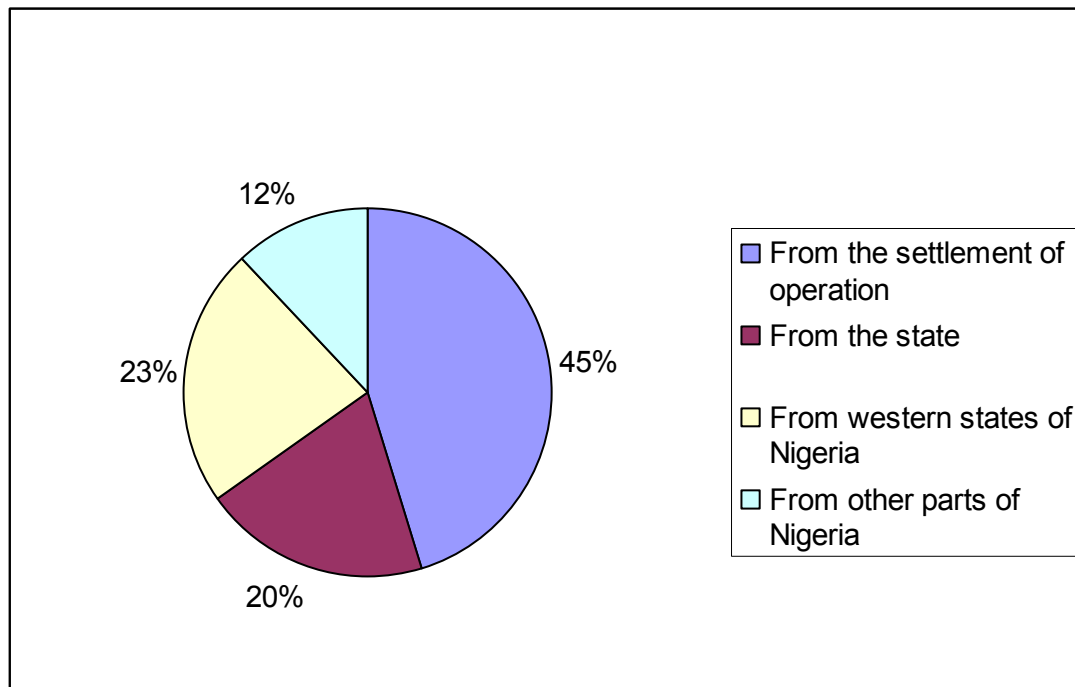
**Table 1.2: Sources of Raw Materials**

S/N	Response	Frequency	Percent	Valid percent	Cumulative percent
1	Agricultural raw materials	119	33.7	33.7	33.7
2	Natural mineral raw materials	60	17.0	17.0	50.7
3	Industrial products raw materials	159	45.0	45.0	95.8
4	Imports	15	4.2	4.2	100.0
	Total	353	100.0	100.0	

Source: Fieldwork, 2013.

While 4.2% (42) of the industries indicated that they were dependent on foreign raw materials which they procured from middle men (See Total 1.2). Out of the 353 firms sampled, 45% (160) of proprietors sourced the totality of their inputs locally from the settlements where they operated, 19.8% (70) sourced their raw materials from other parts of the state other than plant site, 22.6% (80) of the respondents sourced their raw materials from other states in the western region, while 12% (43) sourced their raw materials from other parts of the country (see fig 2).

**Fig.2: Source of raw material relative to Nigeria**



**Source: Fieldwork, 2013.**

The categories of 160 industries that derived their raw materials wholly from the study area were subjected to further investigation. Out of these, 92.5% (148) were informal enterprises, while only 7.5% (12) were formal small scale industries. The categories of these industries were – food processing mills 28% (45), wood based enterprises 24% (38) constructional blocks industries 9.3% (15), pure water industries 13.75% (22), metal works 11.2% (18) and textiles 13.75% (22).

The Regional differences in sources of raw materials for SSI were further subjected to investigation. Thus while firms that sourced raw materials from the immediate settlements where SSI were located averaged 45% for the whole state, it was 44% in Ondo North, 46% in Ondo Central, and 45.5% Ondo South, while the percentage of those sourced from the state averaged 19.8%, it is 17.6%, in Ondo North, 17.7% in Ondo Central and 24.5% in Ondo South. Raw materials sourced from the western state of Nigeria constituted 22.6%, however the percentage vary form 24.5% in Ondo North, 24% in Ondo Central and 19% in Ondo South. From other parts of Nigeria, the volume of raw materials sourced was only 12% for the entire enterprises in the state; it however varied form 13.7% in Ondo North, 12% in Ondo Central and 11% in Ondo South. From the above analysis, it is obvious that the greatest percentages of raw material for SSI development were sourced from these settlements of operation and from Ondo State.

The implication of having well pronounced backwardly integrated enterprises as those above cannot be overemphasized capital is retained in the area of operation, more people are employed, new skills are developed and the totality of the economy experiences multiplier effects. Thus while large scale major industries may lead to backwash and polarization of development in favour of the already developed areas. Small enterprises may in actual fact provide the missing link between regional development and functional industrialization.

## 2.3 Forward Linkage

### 2.31 Destination of products

There were a number of factors that determine the destination of manufactured goods. These include availability and stability of basic institutions and policies which affects operation; the type of goods manufactured; the markets to which the goods were directed; and cost of such goods. In Nigeria, the main strategy of industrialization in the past, which was import substitution, only afforded a limited attempt to manufacture for export, since most of the manufacturing establishments are consumer goods industries that produced for the local or Nigerian markets alone.

The destination of manufactured goods from small scale industries could be categorized into five namely:

1. Immediate locality that is within ten kilometers radius of industrial establishment
2. Within Ondo state
3. Within the Western Region of Nigeria
4. Within the Nigerian national market.
5. For export



### 2.32 Market Threshold and Market Range of Products

The market threshold and range of products of small enterprises was investigated. The study found out that out of the 353 enterprises sampled, majority of the enterprises which constitutes 46.5% (164) had a market threshold of Ondo state, 41.9% (148) produced for Nigeria. Only 11.6% (41) produced for the town of location (see Table 1.2)

**Table 1.2: Market Threshold of Product**

Market threshold	Frequency	Percent	Valid percent	Cumulative percent
Within the town	41	11.6	11.6	11.6
Within the state	164	46.5	46.5	58.1
Nigeria	148	41.9	41.9	100
Total	353	100.0	100.0	

**Source: Fieldwork, 2013.**

This simply means that most of the products of enterprises sampled were mainly consumed in Ondo state and Nigeria rather than the immediate vicinity of the settlements where the industries are located. This varied slightly from the market range of products. The analysis in Table 1.4, shows that most of the enterprises sampled 40.2% (142) had market range of Nigeria. The percentages however varied from 39% (40) in Ondo North; 39.7% (56) in Ondo Central and 41.8% (46) in Ondo South. Only about 14.2% (19% in Ondo North, 13.5% in Ondo Central and 10% in Ondo South) had market ranges that did not extend beyond the western states, Edo and Delta states of Nigeria. This is hardly surprising considering the fact that many products of small enterprises such as hand woven leather bags, shoes and bags, which were produced in the north found their ways to the south and vice versa through the informal trading system.

**Table 1.4: Market Range of Products**

Market range	Freq	%	Ondo North	Ondo Central	Ondo South
Valid No response	2	.6	1(0.98%)	1(0.71%)	
Within the town	69	19.5	16(15.7%)	30(21.3%)	23(20.9%)
Within the state	90	25.5	25(24.5%)	35(24.8%)	30 (27.3%)
Within Western states of Nigeria	50	14.2	20(19%)	19(13.5%)	11(10%)
Nigeria	142	40.2	40(39%)	56(39.7%)	46(41.8%)
Total	353	100.0	102	141	110

**Source: Fieldwork, 2013.**

### 2.33. Uses and marketing of Products in Ondo State

Small scale industries produced diverse range of products used for consumption as industrial raw materials, housing construction, decoration materials, educational materials, furniture, ornaments, and machine parts and so on. These products had different ways of getting into the market. However, the study reveals that majority of the respondents 54% (19) marketed their products through direct sales to customers, This include 57.8% in Ondo North, 53.9% in Ondo Central and 50.9% in Ondo South 25.2% (24.5% in Ondo North, 24.8% in Ondo Central and 26.4% in Ondo South) through the middle men and 20.8% through hired marketers as shown in Table 1.5

**Table 1.5: How Products Get to the Market**

How does your product get to the market?	Freq	%	Ondo North	Ondo Central	Ondo South
Through middle men	89	25.2	25(24.5%)	35(24.8%)	29(26.4%)
Through marketers	73	20.8	18(17.6%)	30(21.3%)	25(22.7%)
Through direct marketing	91	54	59(57.8%)	76(53.9%)	56 (50.9%)
Total	353	100.0	204	282	220

**Source: Fieldwork, 2013.**

Some products of small scale industries were used as inputs by other small scale industries. In fact out of the 353 enterprises sampled, only 32.9% declared that their products were being directly bought by complementary small scale industries around. These figures were not insignificant especially if one realized that some of these products were bought by many small scale industries directly from the open market without the knowledge of producers.

The classes of small scale industries that were dependent and the degree of dependency on inputs from other small enterprises for their raw material and machinery needs were investigated (see Table 1.6).

**Table 1.6: Classes of Enterprises that Sourced Inputs from Other Small Enterprises**

Class of small enterprises	Frequency	Percent	Valid percent	Cumulative percent
Consumer products	35	30	30	30
Wood plants	20	17.2	17.2	47.2
Food based	48	41	41	88.2
Constructional materials	10	8.6	8.6	96.8
Metal works	3	2.6	2.6	100.0
Total	116	100.0	100.0	

**Source: Fieldwork, 2013.**

Table 1.6 shows that food industries constituted the majority of firms that sourced their raw materials from other small enterprises around. 41% (48) of 116 enterprises were food based. This is followed by consumer products based industries where 30% (35) sourced their raw materials from other small industries. Metal / engineering products small enterprises constituted the minority, where only 2.6% (3) sourced their inputs from other enterprises around.

## SUMMARY/ CONCLUSION

The linkage characteristics of small industrial plants showed considerable forward and backward linkages among these enterprises. The study discovered that majority of the firms sampled were dependent on already processed industrial products from other small scale industries i.e. 45% for the whole state, but varied from 44% (45) in Ondo North, 46% (65) in Ondo Central and 45.5% (50) in Ondo South, while 33.1% (119) indicated that they were dependent on Agro raw materials. Only 4.2% was dependent on imports. Moreover, 47% of the firms sourced their raw materials from the settlements where they produced, 17.8% from Ondo State, 23.7% from western region of Nigeria, while 11.2% sourced their raw materials from other parts of Nigeria. In the area of marketing of SSI products 41.9% (148) marketed their products within town of location, 146.5% (164) within the state and 11.6% (41) marketed within Nigeria. The study also discovered that while it is true that majority of firms that sourced their inputs from other small scale enterprises were food based i.e. 41 percent, only 2.6 percent of enterprises in this category were metal producing enterprises.

The implication of this is that agro based enterprises were more relevant in meeting development aspirations of regions such as Ondo state that are still deficient in terms of industrialization. They therefore have the most tendency of creating most linkages and spillover effects which serve to improve economic base and standard of living.

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